



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

OWD 720.1

12 September 2001
01-OWD-054(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Management Guidance on Part-time FAO Financial Advisory Support Services

Summary

Activity code 30000, *Part-Time Procurement Liaison*, is being revised starting in FY 2002 to include part-time FAO financial advisory services.

Background

The Regions and Field Detachment recently completed an analysis of auditor effort expended under activity code 22000, *Should Cost Studies and Integrated Product Team (IPT) Reviews*. The analysis found a number of instances when audits were performed using an IPT approach, but reports were not issued because of confusion regarding the reporting requirements.

Activity code 22000 should only be used for IPTs on pricing proposals. CAM 1-806c. requires auditors to issue a report to communicate the proposal evaluation results from the auditor's participation on an IPT. Recently, there have been instances when contracting officers have indicated that they do not want a report. In these instances, auditors should clarify with the contracting officer the reason that a report is not wanted. Generally, contracting officers are concerned about the time required for issuance of a report. Auditors should explain that with the IPT approach, the time required to issue a report is shortened due to the ongoing interaction with the contractor during the IPT process.

A second area of confusion occurred when only parts of a proposal were examined or applications of agreed-upon procedures were performed as part of an IPT. Activity code 22000 should be used when IPTs are formed to perform examinations of full proposals, examinations of parts of a proposal, or applications of agreed-upon procedures. CAM 1-806f. provides that the report format for activity code 22000 assignments can vary depending upon the services requested by the contracting officer, e.g., a full examination, examination of a part of a proposal, or the application of agreed-upon procedures. Auditors should follow the appropriate reporting guidance for the type of effort performed.

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The analysis also revealed that because of the changing nature and structure of acquisitions within DoD, our customers are requesting FAOs to provide part-time financial advisory services using a collaborative team approach to address various issues. These requests are not necessarily for the audit of pricing proposals. Affected FAOs are requested to provide these services at locations where DCAA does not have full-time financial advisors, or when supplemental assistance is needed in addition to designated financial advisors on special projects. Requested financial advisory services include:

- Source selection boards for A-76 studies,
- Contract administration process improvements related to DoD initiatives, e.g., MOCAS contract closeout initiative,
- Potential conversion of contractor locations to a “commercial operation,” and
- Memorandums of understanding between contracting officers and the contractor.

Generally, contracting officers request audit assistance for evaluating fixed-price type proposals over \$550,000 and cost-type proposals over \$10 million. Audit assistance may also be sought for cost-type proposals below thresholds when the contractors’ estimating systems are inadequate (see DFARS 215.404-2(a)). In most instances, we anticipate that contracting officers will want DCAA to perform either an examination of the entire proposal, examination of parts of a proposal, or an application of agreed-upon procedures engagement of these larger proposals. When DCAA renders these types of services, GAGAS requires that a report must be issued. Under these described conditions, FAOs should continue to use activity codes 21000, 27000, and 28000 when not involved in an IPT, and activity code 22000 when involved in an IPT. When DCAA is participating on a price proposal IPT, activity code 22000 is used to collect all effort.

Activity code 25000, *Requests for Specific Cost/Rate Information*, should be used when providing or confirming rates based on information in FAO files, or to respond to any request relating to forward pricing proposals that can be accomplished within four hours. Activity code 17900, *Other Requested Special Audits*, which encompasses effort expended to perform other unscheduled examinations or applications of agreed-upon procedures, should be used when responding to requests for advice not relating to forward pricing proposals.

Guidance

To recognize the evolution in requested financial advisory services that differ in scope and purpose from the audits described above, we are revising the definition of activity code 30000, Part-time Procurement Liaison, to also include part-time FAO financial advisory services, as follows:

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Activity code 30000 - Part-time FAO Liaison Services

Represents effort expended by field audit offices (FAOs) to perform the Agency's procurement liaison and financial advisory functions on a part-time or sporadic basis. This includes part-time financial advisory support services provided to customers relating to general procurement or contract administration process improvements when a contractor proposal is not anticipated and a report will not be issued. This activity code should not be used if the effort requested is covered under other existing activity codes. FAOs should set up separate assignments with established budgets for each request for financial advisory services. This code is not to be used to do additional analysis work when an audit report has been issued or to support an ongoing negotiation.

Separate assignments will help to document and track the types of financial advisory services provided. The assignment descriptions should clearly describe the type of effort being provided. When the specific task is completed, the assignment should be closed with a memorandum for file, memorandum for record, or a memorandum to the contracting officer depending on the type and nature of services performed.

Closing Remarks

We will continue to monitor financial advisory services provided by FAOs because it is an evolving area, and we will issue additional guidance as needed. Suggestions from the regions regarding additional guidance should be addressed to Headquarters, OWD. Questions regarding this memorandum should be directed to Stephen T. Larkin, Program Manager, Workload Analysis Division at (703) 767-2258 or e-mail at steve.larkin@dcaa.mil.

/s/ by Cris Hornsleth for

Earl J. Newman
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Operations

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